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TREASURY FOR INTERNATIONAL AFFAIRS - JROSE, MNUGENT, AND
MWELLER

E.O. 12958: DECL: 11/07/2011

TAGS: FFIN TU IZ

SUBJECT: INTERNATIONAL COMPACT WITH IRAQ -- DEBT RELIEF
FROM TURKEY

REF: A. STATE 18104

1B. ANKARA 4304
1C. ANKARA 2488
1D. ANKARA 1529

Classified By: Economic Counselor Tom Goldberger for reasons 1.4(b) and
(d).

11. (C) Despite our repeatedly making the case -- at all levels -- that it is in Turkey's interest to join the international community in providing debt relief to Iraq, Turkish officials have made it clear that they are not receptive to debt forgiveness, though they may be willing to consider rescheduling. Economy Minister Babacan and MFA U/S Tuygan conveyed the Turkish view at the time of A/S Sullivan's visit here in July (ref b).

12. (C) There are several factors driving Turkish officials to resist discussion of forgiveness of Iraqi debt. First and foremost, Turks think of themselves as a relatively poor, financially-strapped country and, despite Iraq's current travails, Turks see Iraq as a potentially prosperous country. High oil prices tend to reinforce this view. Finally, Turkey has little or no experience as a creditor in international debt treatments that entail forgiveness. Neither their bureaucracy nor their legal framework is set up to handle debt forgiveness. The upcoming election in Turkey is likely to add to the Turkish Government's unwillingness to consider debt forgiveness.

13. (C) Turkish Treasury Director General for Foreign Economic Relations told us November 6 that Turkey has completed debt reconciliation with Iraq's debt advisors, but that he objects to the use of LIBOR as a discount rate since Turkey's borrowing cost is the interest rate at which it issues Eurobonds, which is higher.

14. (C) We believe the best prospects for movement on this issue with Turkey lie in high-level engagement from the Iraqi government in the context of a broader discussion of bilateral issues, reinforced by sustained, high-level engagement from senior U.S. officials, including in Treasury-to-Treasury channels.

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